



## 2008 SPECIAL SESSION

# BRINGING CALIFORNIA'S REVENUE SYSTEM INTO THE 21<sup>ST</sup> CENTURY

## *BI-PARTISAN COMMISSION WILL ADDRESS OUR CHRONIC BUDGET PROBLEMS BY MODERNIZING OUR STATE'S REVENUE LAWS*

*Today Governor Schwarzenegger signed Executive Order S-12-08 to create the bipartisan Commission on the 21st Century Economy to re-examine and modernize California's out-of-date revenue-gathering laws that contribute to our feast-or-famine state budget cycles. This 12-member commission to be made up of legislative and gubernatorial appointees will suggest changes that will result in a revenue stream that is more stable and reflective of our economy. This is long-term action that will help avoid the extreme revenue swings that cause crippling deficits while maintaining a tax structure that will ensure our continued competitiveness and attraction to employers and workers.*

**California's antiquated revenue system is a major contributor to our feast-or-famine budget cycles.** Our tax system has not been restructured in over 80 years even though our economy has changed dramatically.

- **50 percent of California's personal income tax revenues come from just 1 percent of residents.** That's fewer than 150,000 taxpayers, and much of their income is based on volatile investment income – so when their income dips the state's tax revenues fall too.
- **When Wall Street sneezes, California catches a cold.** Nearly 15 percent of our revenue comes from capital gains – meaning the turmoil on Wall Street brings pain straight to Main Street, California.  
In contrast, the state of Washington is projecting a revenue shortfall of less than 1%, while our state may face a shortfall of nearly 10%. The difference is that our state's tax revenues reflect Wall Street's economy more than California's economy.

**This annual uncertainty makes it difficult to fund government operations year-to-year.** Boom years produce more spending than can be sustained in bust years, putting state services in constant annual jeopardy.

- Such a volatile revenue stream is unacceptable for California's 38 million residents who rely on a stable funding for a host of state-funded programs.

**We need a revenue system as diverse as our economy.** Unlike our budget system, California has one of the most diverse economies in the world. A tax system as diverse as our economy would produce stable revenue.

- An improved revenue-gathering system would decrease the pressure for future tax increases to address revenue shortfalls, which will continue to occur if the volatility of our tax system is not reduced.
- A tax structure that better reflects California's economic strengths could actually grow the economy. For example, reducing the corporate income tax would boost hiring, creating jobs.

**Executive Order S-12-08 immediately establishes this bipartisan Commission on the 21st Century Economy to modernize and decrease the volatility in the state's tax system.** The Commission will make recommendations to bring our tax system into better alignment with our modern economy and to improve the state's economic competitiveness.

- The commission will have 12 members, six appointed by the Governor, three appointed by the Assembly Speaker and three appointed by the Senate Pro Tempore.
- The commission members will receive no compensation.
- They will create a road map toward a more reliable revenue stream that is more reflective of today's economy – to be unveiled on or before April 15, 2009.